



January 31 2012

Ms. Katie Wood  
Finance Administrator  
Town of Eagar  
PO Box 1300  
Eagar, AZ 85925

Dear Ms. Wood:

Per the Town of Eagar's request, we have revised our analysis of the Town's water and wastewater utility's ability to fund proposed debt service from the Water Infrastructure Finance Authority of Arizona ("WIFA"). Our analysis is based on a series of assumptions we have discussed with you and other Town staff and consultants, as well as modifications requested during our November and December 2011 and January 2012 reviews. The results of our analysis are contained in Exhibits 1-3 to this letter.

**Please note that this report presents no assurance or guarantee that the forecast contained herein will be consistent with actual results or performances.** These represent forecasts based on a series of assumptions about future behavior, and are not guarantees. ANY changes in assumptions or actual events may result in significant revisions to the forecast and its conclusions. The cash flow projections and debt service coverage calculations are not intended to present overall financial positions, results of operations, and/or cash flows for the periods indicated, in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants.

### **Analysis – Assumptions and Methodology**

Subject to the caveats listed above, we completed a preliminary 10-year forecast of the Town's water and wastewater revenues and expenses. Our forecast was completed using the comprehensive water and wastewater cost of service rate model we originally developed for the Town in 2006. The model calculates revenues, operating expenses, capital outlays and debt service based on a series of assumptions about volumes, growth and future conditions. A summary of the model's findings is presented in **Exhibit 1** attached to this letter.

The principal assumptions for this forecast include, but are not limited to, the following:

- Growth in accounts and volumes will be very limited in the next several years, and will slowly begin to increase after FY 2014.

- Most expenses are forecast to increase at the rate of approximately 3.0% per year.
- Certain CDBG, WIFA and Leseur funds included in the FY 2012 budget will not be available in future years. Several expenses associated with these funding sources will also be reduced after FY 2012.
- Debt service is based on schedules provided by Town staff.
- Debt service is itemized and separated into debt with repayments pledged from water and wastewater rate revenue, and debt that is guaranteed by other sources of revenue. This distinction is important in assessing the debt coverage calculation contained on Exhibit 1. Further, debt reserve payments are also separated from principal and interest payments.

The most important assumption involves the assumption of approximately \$350,000 in debt from WIFA to fund the purchase of a well that the Town currently leases. The proposed debt service schedule is included as **Exhibit 2** attached to this letter. However, upon the assumption of this debt approximately \$36,000 in annual lease payments is expected to be eliminated by the Town.

### **Findings**

The summary contained in Exhibit 2 presents an annual forecast of utility revenues, expenses and cash flows. The summary reveals that **the Town must implement a schedule of annual water and wastewater rate adjustments in order to fund all operating expenses and debt service**. The proposed rate plan is presented in **Exhibit 3**.

This rate plan assumes that the Town will implement an approximate 2.7% rate adjustment effective February 2012. This is the approximate calculated CPI rate, and is in compliance with the Town's ordinance. Further, Town staff and Council have requested a modification to the previous rate plan, in that the FY 2013 rates are to be phased in during July 2012 and January 2013, instead of being implemented as a whole in July 2013.

The rate plan requires additional adjustments in January of each year beyond 2013. The impact of the rate plan on average users is also presented both in Exhibit 1 and Exhibit 3. The analysis reveals that while the net revenues are lower under this scenario for FY 2013 due to the phase in of the rate plan, revenues are still forecast to be sufficient to fund all operating and capital obligations.

Without the rate adjustments contained in this plan, the Town is not forecast to recover sufficient revenues to fund all expenses over the next decade.

**Debt Coverage**

The project team prepared an additional bonds coverage test as part of this analysis. The results of this analysis are presented in Exhibit 1. The analysis reveals that if the Town implements the rate plan contained in this analysis, it is forecast to be able to meet a bonds coverage requirement that exceeds 1.20 for each of the next ten years.

Thank you for this opportunity to provide assistance to the Town of Eagar. Please feel free to call me if you have any questions.

Very Truly Yours,



Dan V. Jackson  
Managing Director

TOWN OF EAGAR WATER/WASTEWATER COST OF SERVICE MODEL											
	Current	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021

**Forecast Summary****Scenario:** 12.01.31 -- BASE**1 Water and Wastewater Rates**

Water Rates -- Residential											
Monthly Minimum Charge -- 1st 2,000 Gal	Effective Feb-12	Effective Jul-12	Effective Jan-13	Effective Jan-14	Effective Jan-15	Effective Jan-16	Effective Jan-17	Effective Jan-18	Effective Jan-19	Effective Jan-20	Effective Jan-21
3/4"	\$ 8.91	\$ 9.15	\$ 9.43	\$ 9.71	\$ 10.49	\$ 10.91	\$ 11.35	\$ 11.69	\$ 12.04	\$ 12.40	\$ 12.77
1"	22.29	22.89	23.59	24.30	26.24	27.29	28.38	29.23	30.11	31.01	31.94
1 1/2"	44.57	45.77	47.18	48.58	52.47	54.57	56.75	58.45	60.21	62.01	63.87
2-4"	71.32	73.25	75.49	77.74	83.96	87.32	90.81	93.54	96.34	99.23	102.21
Volume Rate Per 1,000 Gal											
2.001	\$ 2.20	\$ 2.26	\$ 2.33	\$ 2.40	\$ 2.59	\$ 2.69	\$ 2.80	\$ 2.89	\$ 2.97	\$ 3.06	\$ 3.15
20.001	2.37	2.43	2.51	2.58	2.79	2.90	3.02	3.11	3.20	3.30	3.40
30.001	2.52	2.59	2.67	2.75	2.97	3.09	3.21	3.31	3.41	3.51	3.61
50.001	2.87	2.95	3.04	3.13	3.38	3.52	3.66	3.77	3.88	4.00	4.11
Above											
Wastewater Rates -- Residential											
Monthly Charge	\$ 24.69	\$ 25.56	\$ 26.35	\$ 27.13	\$ 28.22	\$ 29.35	\$ 30.52	\$ 31.44	\$ 32.38	\$ 33.35	\$ 34.35
Residential Monthly Bill -- 3/4" Meter											
10,000 Gal Total	\$ 51.40	\$ 52.79	\$ 54.41	\$ 56.03	\$ 59.44	\$ 61.81	\$ 64.29	\$ 66.22	\$ 68.20	\$ 70.25	\$ 72.36
Percent Inc	2.7%	3.1%	3.0%	3.0%	6.1%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%
30,000 Gal Total	97.10	99.69	102.76	105.84	113.24	117.77	122.48	126.16	129.94	133.84	137.85
Percent Inc	2.7%	3.1%	3.0%	3.0%	7.0%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%
50,000 Gal Total	147.50	151.49	156.13	160.78	172.60	179.50	186.68	192.28	198.05	203.99	210.11
Percent Inc	2.7%	3.1%	3.0%	3.0%	7.4%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%

**EXHIBIT 1**

		TOWN OF EAGAR										
		WATER/WASTEWATER COST OF SERVICE MODEL										
		Current	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021

**Forecast Summary Scenario: 12/01/31 -- BASE**

<b>3 Annual Revenues and Expenses</b>												
<b>Revenues and Expenses</b>												
Water Rate Revenues	\$ 564,083		\$ 619,573	\$ 652,058	\$ 695,300	\$ 727,949	\$ 764,439	\$ 800,696	\$ 841,026	\$ 882,985	\$ 926,633	
WV Rate Revenues	427,268		453,236	459,360	518,483	546,015	579,308	618,042	658,578	700,990		
Non-Rate Revenues	601,007		228,447	228,447	228,447	228,447	228,447	228,447	228,447	228,447	228,447	
Total Revenues	1,612,358		1,301,255	1,349,865	1,415,403	1,474,879	1,538,901	1,608,451	1,687,515	1,770,010	1,856,070	
Operating Expenses	1,265,407		1,085,369	1,133,216	1,184,334	1,238,994	1,297,767	1,360,953	1,428,693	1,500,585	1,576,929	
1 Net Revenues Available for Capital Outlays/Debt Service	346,951		215,886	216,649	231,068	235,885	241,134	247,498	256,822	269,424	279,141	
Debt Service P&I -- Revenue Pledged/Coverage Eligible												
Revised 2008 WIFA Drinking Water 9/20/03-7/08	27,526		27,516	27,507	27,497	27,487	27,476	27,465	27,454	27,443	27,430	
Revised 2008 WIFA Clean Water 9/10/07-08	14,145		14,140	14,135	14,130	14,125	14,120	14,113	14,108	14,102	14,096	
Series 2011 WIFA Loan	-		20,860	41,320	41,320	41,320	41,320	41,320	41,320	41,320	41,320	
2 Total	41,670		62,316	82,982	82,947	82,932	82,916	82,899	82,882	82,865	82,847	
Debt Service P&I -- Tax Pledged/Not Coverage Eligible												
94680000 Eagar AZ Excise 2003	93,295		124,819	125,019	124,969	124,813	124,550	124,681	125,281	125,031	126,156	
Series 2007 GADA Loan	124,519		-	-	-	-	-	-	-	-	-	
Water/WV Lease	36,000		124,819	125,019	124,969	124,813	124,550	124,681	125,281	125,031	126,156	
Total	253,814											
Debt Service -- Reserve	-											
Series 2011 WIFA Loan	-		8,264	8,264	8,264	8,264	8,264	8,264	-	-	-	
Total Debt Service	295,484		195,399	216,245	216,180	216,009	215,730	209,580	209,163	207,896	209,003	
Capital Outlays	-		-	-	-	-	-	-	-	-	-	
Total Cost of Service	1,560,891		1,280,768	1,349,461	1,400,514	1,455,003	1,513,497	1,570,533	1,637,856	1,708,481	1,785,932	
Contingency--Net Inc/(Dec) in Fund Balance	51,467		20,487	404	14,889	19,877	25,404	37,918	49,659	61,528	70,138	
Percent of COS	3.3%		1.6%	0.0%	1.1%	1.4%	1.7%	2.4%	3.0%	3.6%	3.9%	
Revenue Adequacy Tests												
(1/2) Debt Coverage	8.33		3.46	2.61	2.79	2.84	2.91	2.99	3.12	3.25	3.37	

TOWN OF EAGAR WATER/WASTEWATER COST OF SERVICE MODEL											
	Current	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Forecast Summary</b>											
<b>Scenario:</b>	<b>12.01.31 -- BASE</b>										
<b>4 Total Accounts</b>											
<b>Water Accounts</b>											
Total Accounts	1,960	1,960	1,960	1,970	1,990	2,022	2,064	2,116	2,168	2,220	2,220
New Accounts	-	-	-	10	20	32	42	52	52	52	52
Avg. Annual Growth Rate	0.00%	0.00%	0.00%	0.51%	1.02%	1.61%	2.08%	2.52%	2.48%	2.40%	2.40%
<b>Wastewater Accounts</b>											
Total Accounts	1,220	1,220	1,220	1,230	1,250	1,272	1,314	1,366	1,418	1,470	1,470
New Accounts	-	-	-	10	20	22	42	52	52	52	52
Avg. Annual Growth Rate	0.00%	0.00%	0.00%	0.82%	1.63%	1.76%	3.30%	3.96%	3.81%	3.67%	3.67%
<b>5 Annual Volume</b>											
<b>Water Volume</b>											
3/4" City Mtr	158,769,684	158,769,684	159,407,484	160,681,385	162,587,200	165,118,397	168,266,307	171,394,709	174,504,192	174,504,192	174,504,192
1" City Mtr	5,889,064	5,889,064	5,889,064	5,889,064	6,065,736	6,240,709	6,414,062	6,585,867	6,756,191	6,756,191	6,756,191
1 1/2" City Mtr	606,606	606,606	606,606	606,606	606,606	606,606	606,606	606,606	606,606	606,606	606,606
2"-4" City Mtr	27,480,445	27,480,445	27,480,445	27,480,445	27,480,445	27,884,569	28,286,751	28,687,035	29,085,466	29,482,066	29,482,066
Non Bldd	3,018,670	3,018,670	3,018,670	3,018,670	3,018,670	3,018,670	3,018,670	3,018,670	3,018,670	3,018,670	3,018,670
3/4" County Mtr	841,823	841,823	841,823	841,823	841,823	841,823	841,823	841,823	841,823	841,823	841,823
2"-4" County Mtr	-	-	-	-	-	-	-	-	-	-	-
<b>Total System</b>	<b>196,606,292</b>	<b>196,606,292</b>	<b>197,244,092</b>	<b>198,517,993</b>	<b>201,004,604</b>	<b>204,112,955</b>	<b>207,834,503</b>	<b>211,533,141</b>	<b>215,209,569</b>	<b>215,209,569</b>	<b>215,209,569</b>
<b>Wastewater Billing Units</b>											
Single Residential	65,049,527	65,049,527	65,635,032	66,806,040	67,977,049	70,319,066	73,246,587	76,174,109	79,101,630	79,101,630	79,101,630
Multi-Residential	4,102,085	4,102,085	4,102,085	4,102,085	4,288,543	4,475,002	4,661,460	4,847,918	5,034,377	5,034,377	5,034,377
Non Resid. Sewer	20,068,619	20,068,619	20,068,619	20,068,619	20,298,283	20,529,967	20,760,640	20,991,314	21,221,988	21,221,988	21,221,988
<b>Total System</b>	<b>89,220,231</b>	<b>89,220,231</b>	<b>89,805,735</b>	<b>90,976,744</b>	<b>92,564,885</b>	<b>95,324,034</b>	<b>98,668,688</b>	<b>102,013,341</b>	<b>105,357,985</b>	<b>105,357,985</b>	<b>105,357,985</b>

**Town of Eagar, Arizona**  
**Drinking Water Project, Series 2012**  
**(Water Utility Revenue Loan - WUIFA)**  
**10-Year Amortization**

(1)	(2)	(3)	(4)	(5)	(6)
Fiscal Year Ending	Principal	Interest (a)	Total	Debt Service	Res. Fund (b)
<b>WUIFA</b>					
			Water Utility Revenue Loan		
			Series 2012		
			Dated: 1/1/12		
2011/12					
2012/13	\$16,723	\$3,938	\$20,660	\$8,264	\$28,924
2013/14	33,822	7,499	41,320	8,264	49,584
2014/15	34,583	6,738	41,320	8,264	49,584
2015/16	35,361	5,960	41,320	8,264	49,584
2016/17	36,156	5,164	41,320	8,264	49,584
2017/18	36,970	4,351	41,320		41,320
2018/19	37,802	3,519	41,320		41,320
2019/20	38,652	2,668	41,320		41,320
2020/21	39,522	1,798	41,320		41,320
2021/22	40,411	909	41,320	(41,320)	(0)
	<b>\$350,000</b>	<b>\$42,543</b>	<b>\$392,543</b>	<b>\$0</b>	<b>\$392,543</b>

- (a) Interest estimated at 2.25% for the obligations and is subject to change based on market conditions. Town requests 10-year amortization subject to completion of additional bonds test.
- (b) Debt Service Reserve Fund represents one year of debt service. Funded equally over five years.

## EXHIBIT 3

TOWN OF EAGAR PROPOSED RATE SCHEDULE										
	Current	Effective Feb-12	Effective Jul-12	Effective Jan-13	Effective Jan-14	Effective Jan-15	Effective Jan-16	Effective Jan-17		
<b>1 Water Rates</b>										
Minimum Charge										
3/4"	\$ 8.91	\$ 9.15	\$ 9.43	\$ 9.71	\$ 10.49	\$ 10.91	\$ 11.35	\$ 11.69		
1"	22.29	22.89	23.59	24.30	26.24	27.29	28.38	29.23		
1 1/2"	44.57	45.77	47.18	48.58	52.47	54.57	56.75	58.45		
2-4"	71.32	73.25	75.49	77.74	83.96	87.32	90.81	93.54		
Volume Charge										
2,001	20,000	2.20	2.26	2.33	2.40	2.59	2.69	2.80	2.89	
20,001	30,000	2.37	2.43	2.51	2.58	2.79	2.90	3.02	3.11	
30,001	50,000	2.52	2.59	2.67	2.75	2.97	3.09	3.21	3.31	
50,001	Above	2.87	2.95	3.04	3.13	3.38	3.52	3.66	3.77	
<b>2 Wastewater Rates</b>										
Residential Mthly Chg	24.89	25.56	26.35	27.13	28.22	29.35	30.52	31.44		
<b>3 Residential Monthly Bills</b>										
10,000	\$ 51.40	\$ 52.79	\$ 54.41	\$ 56.03	\$ 59.44	\$ 61.81	\$ 64.29	\$ 66.22		
		1.39	1.62	1.62	3.41	2.38	2.47	1.93		
		2.7%	3.1%	3.0%	6.1%	4.0%	4.0%	3.0%		
30,000	97.10	99.69	102.76	105.84	113.24	117.77	122.48	126.16		
		2.59	3.07	3.07	7.40	4.53	4.71	3.67		
		2.7%	3.1%	3.0%	7.0%	4.0%	4.0%	3.0%		
50,000	147.50	151.49	156.13	160.78	172.60	179.50	186.68	192.28		
		3.99	4.64	4.64	11.82	6.90	7.18	5.60		
		2.7%	3.1%	3.0%	7.4%	4.0%	4.0%	3.0%		